Postal Regulatory Commission
Submitted 2/3/2020 12:56:57 PM
Filing ID: 112157
Accepted 2/3/2020

Tom Harty
President & Chief Executive Officer
Meredith Corporation
1716 Locust Street
Des Moines, IA 50309
T 515-284-3928
Tom.harty@meredith.com

February 3, 2020

U.S. Postal Regulatory Commission
901 New York Avenue NW, Suite 200
Washington, DC 20268-0001

RE: 10-Year Rate System Review – Revised Proposal
Docket No. RM2017-3; Order No. 5337

Dear Commissioners:

Meredith Corporation is the largest magazine publisher in the U. S. In 2019, Meredith mail generated nearly $164 million in USPS revenue. Of that total, Periodicals class mail comprised $141 million, with another $23 million spent on First Class and Marketing Mail lettermail in support of the magazines. Meredith is heavily reliant on the postal system to deliver our magazines and marketing/billing efforts. An affordable mail delivery system is critical to our businesses.

On behalf of Meredith Corporation, I am submitting comments to emphatically state my growing concern with the PRC's continued pursuit of a modified system that would allow far-above inflation prices to be charged by the Postal Service. Meredith strongly opposes this revised proposal. As with the original proposal issued under Order No. 4258, this proposal relies heavily on authorizing above-CPI rate authority to address the Postal Service's problems, and does little-to-nothing to incentivize Postal Service behavior that will align costs with mailing industry realities in a meaningful way. This is not a path to a sustainable postal system. From the industry side, it is crystal clear that this approach will force USPS management decisions that will permanently drive more volume out of the system than envisioned by the Commissioners and will ultimately worsen the USPS' financial condition.

The PRC's method for calculating different types of above-CPI rate authority is not Meredith's main concern. Our concern is the total postage price that we will have to pay when all of the PRC's methodologies are implemented. Increases of the unprecedented magnitude that would result from the new proposal (which we expect to range between at least 29 and 41 percent over five years should the USPS elect to deploy the underwater surcharge) would be devastating to the already challenged publishing industry. As detailed in Meredith's comments to the original proposal, *see* Meredith Corp. Feb. 27, 2018 Comments, even with moderate, annual postage increases under

PAEA, postage cost's share of Meredith magazines' total, physical production costs increased from 24% in 2006 to 40% in 2017. Of the elements that drove those costs, only postage continually increased on a unit basis. During that time period, Meredith has been able to significantly mitigate the CPI-capped postage increases through aggressive cost reductions in paper and print and by partnering with our vendors to develop creative preparation initiatives that make our mailings more efficient and less costly for the USPS. In today's leaner business environment, those opportunities have been exhausted. Meredith would be left with no option other than to reduce circulation (we conservatively estimate a 32 percent reduction in mailpiece volume), divert magazine delivery in high-density areas out of the USPS to private delivery networks, and/or move more aggressively into digital platforms.

We continue to support preservation of the CPI cap as the core building block of the rate setting process. However, the above-CPI rate authority proposals as presented are flawed and will be counter-productive. This proposal will make postage cost even less predictable and will force more conservative business decisions throughout the industry.

The USPS has a monopoly over many types of physical mail. Without strong economic incentives to manage costs, a monopolist will not make difficult network decisions in reaction to changing conditions. The proposed mail density and productivity add-ons would reward the USPS for behavior that fails to adjust its costs to economic realities. Essentially, this methodology will continually compound the negative impact of poor decisions by imposing higher rates that will lead to further volume declines, creating a spiraling cycle. This threatens the sustainability of the mail system.

The proposed productivity rate authority add-on is not needed, as increased productivity is its own reward for the USPS and for mailers. But, if the PRC were to authorize that type of authority, it must be tied to achieving future efficiencies that are not just marginal and are demonstrated through multi-year trends. The current proposal allows easy manipulation of year-over-year productivity comparisons in order to trigger the add-on. Maintaining last year's below-target delivery standards is not a performance improvement. Even marginal improvements aren't particularly meaningful or reward-worthy. Achieving or exceeding the USPS's own established service targets would be an actual accomplishment from which all parties would benefit.

Making the granting of an extra two percentage points of pricing authority to the USPS over periodicals optional provides little comfort as the Postal Service has unsurprisingly shown no restraint in using the rate authority the Commission has provided and we must plan for this to continue under the revised proposal. It is the regulator's job to limit price increases to appropriate levels, rather than hope that a monopolist like the Postal Service will.

Imposing huge price hikes on periodicals will negatively impact business mail users and will impede the ability of mail with unique educational, cultural, scientific, and informational value to reach its readers – factors the PRC must consider. Periodicals mail has significant value to the people – postal customers look forward to receiving their magazines, which encourages engagement with the mailbox. Allowing the USPS to charge up to two percent above-CPI per year across several years on top of the other add-ons is excessive. This is particularly so because the PRC has focused so little on forcing the USPS to process and deliver flats mail more efficiently. In fact, the USPS continues to cling to FSS processing that its own numbers indicate is far less cost-effective than carrier route sorted mail. The USPS must be required to reduce its flats processing costs before it is allowed to charge any surcharges on underwater products or classes.

On a positive note, I would like to acknowledge the benefit of increasing the passthrough for periodicals carrier route rate to a minimum 85% (an improvement of at least 20%). Doing so will incentivize the industry to move more periodicals to comail processes where multiple titles are combined into the same mailstream improving density, creating more efficient pallets and enabling drop shipping deeper into the USPS system. This expansion will make it more feasible for medium to small circulation publications to leverage that opportunity. By improving the passthrough in this meaningful way, mail service providers will be incented to expand their comail offerings to this underserved part of the industry. Their inclusion will result in much more efficient mail that will drive down USPS flat costs and improve service. A win for all.

In conclusion, the PRC should enact policies that incent the USPS to align costs with supply chain realities. But the draconian rate proposals of both the original and revised Orders will greatly accelerate the demise of the system and inflict permanent damage as mail volume and jobs leave for good. The PRC should not and must not adopt policies that will further jeopardize the viability of the USPS and ultimately create an accelerating crisis. Policy heavily reliant on large revenue increases rather than driving efficient behavior will lead down that path. I strongly urge the Commission to reconsider its proposals.

Sincerely,

Tom Harty